



**30 April 2010**

**Heritage Oil Plc  
("Heritage" or the "Company")**

**HERITAGE OIL ANNOUNCES ITS ANNUAL FINANCIAL REPORT FOR THE  
YEAR ENDED 31 DECEMBER 2009**

Heritage Oil Plc (LSE: HOIL), an independent upstream exploration and production company, announces the publication of its annual financial report for the twelve months ended 31 December 2009. All figures are in US dollars unless otherwise stated.

**Operational Highlights**

- Discovered the Miran West Field in the Kurdistan Region of Iraq ("Kurdistan")
- Tests on the Miran West-1 well, Kurdistan, indicate potential for production from the well of 8,000-10,000 bopd
- Miran West-2 well has intersected significant hydrocarbon-bearing intervals over approximately 1,800 metres
- The Miran West-2 well is drilling to the deeper Jurassic and Triassic exploration targets which could add significantly to the hydrocarbon potential of the Miran structure
- Three zones identified in the Cretaceous in Miran West-2 to be tested when exploration drilling is completed
- Completed the successful Block 1 drilling programme in Uganda with the discovery of the world-class Buffalo-Giraffe Field

**Financial Highlights**

- Proposed sale of Ugandan interests for up to \$1.5 billion. Expect transaction to complete within the first half of 2010
- Intention to pay special dividend of between 75p to 100p per share following completion of the sale of the Ugandan interests
- Sale of non-core holdings in Oman realised cash of \$28.4 million
- Successful placing of 25.4 million new shares raised gross proceeds of \$217 million
- Back costs of \$6.7 million were received on the exercise of third party back-in rights for 25% in the Miran Block, Kurdistan
- Strong balance sheet; cash of \$208 million at 31 December 2009, which is stated before the sale of the Ugandan interests and payment of the special dividend
- Net average daily production of 329 bopd in 2009

**Outlook**

- Heritage's most diverse work programme ever planned in several core areas
- High impact exploration well in Malta planned for the fourth quarter of 2010

- Exploration and appraisal drilling on the Miran structure, Kurdistan, to continue in 2010
- Exploration well planned in Pakistan for the fourth quarter of 2010
- Production expected to increase in Russia with additional development drilling
- Examine opportunities to generate further value for shareholders

**Tony Buckingham, Chief Executive Officer, commented:**

*“Operational strength in 2009 coupled with corporate initiatives has placed the Company in a strong position for 2010 and beyond. In the short-term we remain focused on delivering shareholder value through the monetisation of our Ugandan interests and through our high impact drilling programme in Kurdistan. Wells planned in Malta and Pakistan for the second half of 2010 as well as the ongoing drilling of the Miran West-2 well, ensure that we continue with our diverse, active work programmes.”*

Heritage’s 2009 Annual Report is available on its website at [www.heritageoilplc.com](http://www.heritageoilplc.com)

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**For further information please contact:**

**Heritage Oil Plc**

Tony Buckingham, CEO / Paul Atherton, CFO  
+44 (0) 1534 835 400  
[info@heritageoilplc.com](mailto:info@heritageoilplc.com)

**Heritage Oil Plc – Investor Relations**

Tanya Clarke  
+44 (0) 20 7518 0838  
[tanya.clarke@heritageoilplc.com](mailto:tanya.clarke@heritageoilplc.com)

**Pelham Bell Pottinger – PR - Europe**

Nick Lambert / Duncan Mayall  
+44 (0) 20 7861 3936 / +44 (0) 20 7861 3888  
[NLambert@pelhambellpottinger.co.uk](mailto:NLambert@pelhambellpottinger.co.uk) / [DMayall@pelhambellpottinger.co.uk](mailto:DMayall@pelhambellpottinger.co.uk)

**CHF Investor Relations – Investor Relations - Canada**

Cathy Hume / Jeanny So  
+1 416 868 1079 x231 / x225  
[cathy@chfir.com](mailto:cathy@chfir.com) / [jeanny@chfir.com](mailto:jeanny@chfir.com)

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## CHAIRMAN'S STATEMENT

I am pleased to report that 2009 has been another momentous year for Heritage. We have crystallised value with the disposal of our Omani interests and the proposed disposal of our Ugandan interests. We are now moving forward into a new chapter of core area activities.

It is with some sadness that we prepare to leave Uganda, but this is countered with pride that we have left a lasting legacy which has benefited people in our concession areas and has established a hydrocarbon future capable of supporting infrastructure and industrial development. This will have lasting benefits for the people of Uganda. We have established a solid base for other companies to build upon and we fully expect new entrants into Uganda to continue with the numerous corporate social responsibility ("CSR") programmes that we have initiated and pursued with enthusiastic support from Ugandans individually and from the Ugandan Government.

As we prepare to dispose of our interests in Uganda, which has been a core area of focus for us, it seems appropriate to reflect briefly on the evolution of Heritage. We listed on the Toronto Stock Exchange at the beginning of 1999 with a market capitalisation of less than \$15 million and assets focused in Uganda and Congo. Through our own initiatives and technical expertise, combined with excellent strategic guidance, Heritage has evolved into a company currently valued at \$2.3 billion with an extensive portfolio of core assets focused on Africa, the Middle East and Russia.

Heritage was the pioneering company in the Albert Basin. Entering Uganda in 1997, Heritage was the first company to explore for and operate Ugandan oil and gas interests in almost 60 years. Our entry into the region was exploration-led because we believed, from the geology, that it had the potential to be a significant oil basin. Our first licence covered the original Block 3. We were active on our licence for four years before Energy Africa farmed into our acreage. In 2004, part of Block 3 was relinquished and Block 3A, which covered most of the exploration acreage in the original Block 3, was re-licenced along with Block 1 at the northern end of the basin. Over the last 13 years we have carried out extensive work in the basin. Since 2006, we have drilled six wells on our licences, all of which have found hydrocarbons. The two wells tested in our licence areas each produced at rates in excess of 12,000 bopd. In addition to new field discoveries, we also established many other leads and prospects in our licence areas which have confirmed the Albert Basin to have multi-billion barrel resource potential.

Our operations in Uganda have adhered consistently to CSR policies which we are now beginning to extend to our other core area holdings as work commences in these new areas. We expect to achieve significant value accretion for our shareholders in a work environment that benefits local populations and establishes legacy assets that sustain long-term benefits for the countries in which we are working.

### **Operations**

#### *Uganda*

In 2009, in Uganda, we continued building on successes achieved in 2008. The Giraffe discovery in Block 1, at the beginning of 2009, allowed us to exceed comfortably the required commercial threshold for development. This enabled us to progress methodically with our work with the Government of Uganda to plan for an early phased development, based initially on our Kingfisher discovery in Block 3A and progressing to commercialisation of the Albert Basin.

#### *Kurdistan*

Heritage commenced drilling the Miran West-1 well in December 2008, less than 15 months after being awarded the licence, demonstrating both the Company's operational efficiency and

our commitment to the region. Initial testing operations concluded in May 2009. The Miran Field has been estimated to have oil-in-place of 3.4 billion barrels. Further testing on the Miran West-1 well indicated that it could produce at between 8,000-10,000 bopd.

We announced in April 2010, that the Miran West-2 appraisal well had intersected significant hydrocarbon-bearing intervals over approximately 1,800 metres within the Cretaceous formations. The well is now drilling down to the deeper Jurassic and Triassic exploration targets with the potential to contain substantial volumes of additional hydrocarbons.

### **Combined Code of Corporate Governance**

We recognise our responsibility to shareholders for the Company's standard of governance and we also recognise the importance of maintaining responsible corporate governance practices. I am pleased to advise our shareholders that we have made further progress during the year to advance our adherence to the Combined Code on Corporate Governance published in 2008 (the "Combined Code").

In 2009, General Sir Michael Wilkes was appointed Senior Independent Director to comply with the Combined Code. His chief responsibility is to maintain sufficient contact with major shareholders to help develop a balanced understanding of their issues and concerns. In this role, General Sir Michael Wilkes is available to shareholders who have concerns that have not been, or cannot be, resolved through discussion with the Chairman, Chief Executive Officer or Chief Financial Officer or where such contact is inappropriate.

Other significant developments during 2009 and early 2010 included establishing a performance evaluation process for the Board and Board committees and for the Chairman, developing a formal framework for remuneration policy across the Company, confirming no annual bonuses would be paid to the Non-Executive Directors, undertaking an independent review of Executive Directors' remuneration, developing the Company's processes for reviewing key risks, internal controls and assessments, initiating processes for reviewing Director appointment and succession planning, establishing a Reserves Committee and establishing a CSR Committee.

### **Corporate Social Responsibility**

We remain committed to adhering to our CSR policies and recognise the importance of engaging with local stakeholders at an early stage. The framework of our CSR policy has been refined through our experiences in Uganda where we have worked diligently with stakeholders to allay potential concerns arising from our activities and to address needs and requirements in a way that establishes a respected local reputation and identity for us. We believe that our active, ongoing involvement in community projects in Uganda and Kurdistan is fundamental in developing and maintaining strong relationships within these regions.

### **Outlook**

Kurdistan remains a focus area for Heritage this year. As we continue with drilling on the Miran West structure and in the second half of the year plan to start exploration drilling on the Miran East structure, we expect to confirm the enormous potential of the Miran Block. 2010 will also bring to the fore a new set of projects and initiatives based on seismic and drilling campaigns in Malta and Pakistan scheduled for the second half of the year.

The Board believes that Heritage, with its technical and financial strengths, will continue to identify further attractive growth opportunities. The portfolio of assets within Heritage offers shareholders geographical diversification combined with a mix of exploration, development and production. This, together with a strong financial base, positions Heritage perfectly to pursue exciting opportunities.

Our management team has a track record of creating value for shareholders and holds a strong determination to continue that successful track record. Development of our Company could not have been achieved without the determination, commitment and dedication of our management team and our staff, together with contractors and suppliers. The Board thanks them all for their continued efforts and professionalism.

**Michael J. Hibberd**  
**Chairman**

## CHIEF EXECUTIVE'S STATEMENT

2009 saw further significant operational success and corporate developments in our core assets in Uganda and Kurdistan propelling Heritage forward into a new phase as we enter a new decade.

We are demonstrating the success of our strategy as a first-mover by the proposed monetisation of our Ugandan interests and are considering many new opportunities with the potential to generate value for our shareholders.

After reaching five-year lows, equity markets saw a recovery during 2009. Brent Oil prices moved up from the low of \$36.40 per barrel in January 2009 to a high of \$79.20 per barrel in November 2009 and the outlook for the oil and gas markets remains positive. Leading figures around the world acknowledge that demand for hydrocarbons will continue to increase as both populations and economies grow. Since much of the "easy oil" has already been discovered, it is frontier exploration that will be required to satisfy this growth. These areas often come with their challenges which we consider we are well equipped to manage through our experienced management and technical teams and our proven operating capability.

### *Uganda*

At the beginning of 2009, we announced the successful Giraffe discovery in Block 1, Uganda, adding to our previous discoveries in the block, Warthog and Buffalo. Pressure and seismic data indicate that the Giraffe discovery is structurally connected to the Buffalo Field, creating a combined Buffalo-Giraffe Field covering approximately 48 square kilometres with an oil column of approximately 140 metres. This was a pivotal discovery that confirmed the viability of the Albert Basin as a commercial oil basin. The success of our multi-well programme, which began in October 2008, is evident with net contingent resources that have been estimated at 250 million barrels.

In February 2009, we completed the drilling of the successful Kingfisher-3A sidetrack well which appraised the Kingfisher discovery in Block 3A. This well intersected all three Kingfisher reservoir intervals encountered in the Kingfisher-1A and -2 wells. All three Kingfisher wells have been suspended as future producers.

Since discovering the Kingfisher Field in 2007, net contingent resources in Heritage operated Blocks 1 and 3A have been estimated at 355 million barrels with a value of \$1.126 billion, based on a discount rate of 10%.

### *Kurdistan*

Kurdistan remains a core area for Heritage. Since signing the licence in October 2007, we have shot seismic, drilled a discovery well on the Miran West structure and are currently drilling the Miran West-2 well. This is a huge achievement demonstrating our commitment to the region and confirming the high level of operational expertise within Heritage.

The Miran West-1 exploration well commenced drilling on 21 December 2008 and initial testing operations completed in May 2009. A gross oil bearing column of approximately 700 metres was discovered and the oil in place for the field has been estimated to be approximately 3.4 billion barrels with net combined contingent and prospective resources totalling approximately a billion barrels. Excellent recoveries, of between 50-70%, are expected from the fractured carbonate reservoirs, based on fracture porosity alone. During testing operations, concluded in August 2009, the Miran West-1 well flowed at a maximum rate of 3,640 bopd from a single reservoir interval.

We announced in April 2010 that the Miran West-2 appraisal well had intersected hydrocarbon-bearing intervals over approximately 1,800 metres within the Cretaceous

formations. Three zones, determined from logging, within the Cretaceous formations have been identified for testing once drilling operations have completed.

The well is being deepened to approximately 4,600 metres to explore further potential in the underlying Jurassic and Triassic structures. These exploration targets have the potential to contain substantial volumes of additional hydrocarbons. We are planning to acquire 3D seismic over the Miran Block in the second half of 2010 to enable further appraisal drilling to encounter the fracture networks efficiently. The Miran West-1 well has previously demonstrated that where open fractures are encountered in wells the reservoir will support potential production rates of approximately 10,000 bopd.

Future plans for the drilling of the Miran East-1 exploration well are progressing and we are looking to contract a rig for later this year.

### ***Russia***

The Zapadno Chumpasskoye Field is located in Western Siberia. Approval was received at the end of 2009 for a Field Development Plan to enable us to commence horizontal drilling to improve the recovery efficiency and also to enhance the economics of the field. The field was shut in for most of the first quarter of 2009 following a temporary reduction in domestic oil prices in Russia. After production restarted, measures were undertaken to increase output to the current production rate of approximately 650 bopd.

### ***Financial and Corporate***

With the disposal of the Oman operations in April 2009, oil production and revenue is now generated from the Zapadno Chumpasskoye Field in Russia. Heritage's net production decreased by 13% to an average of 329 bopd during 2009, compared to 2008, as a result of the field being shut in during early 2009.

During 2009, our liquidity was enhanced through two initiatives. Firstly, in April 2009, \$28.4 million was realised through the sale of Eagle Energy (Oman) Limited ("Eagle Energy"). Secondly, in June 2009, 25.4 million new Ordinary Shares were placed successfully at a price of £5.20 per share for total gross proceeds of \$217 million.

In November 2009, we announced that a Letter of Intent ("LOI") had been signed with ENI International B.V. ("Eni") to sell our Ugandan interests for up to \$1.5 billion. In December 2009 a Sale and Purchase Agreement ("SPA") was executed with Eni. Subsequently, Tullow Uganda Limited, our partner in the blocks, exercised its right of pre-emption on the same terms and conditions as agreed with Eni. In April 2010, we announced that we had received a letter from the Ugandan Government stating that it supports Heritage's sale and transfer of its Ugandan interests and that it will conclude its review of the transaction within eight weeks. Following this, Heritage expects to receive formal consent and to close the transaction shortly thereafter.

On completing the disposal we will have operations in seven countries and some of the disposal proceeds will be used to accelerate exploration, appraisal and development of these areas. Furthermore Heritage will have the financial flexibility to participate in opportunities to generate further value for shareholders.

### ***Other 2010 Operations***

Operations are planned to expand in Malta this year with the acquisition of 1,000 kilometres of seismic and the drilling of an exploration well. Heritage has already identified a number of large targets from over 3,500 kilometres of seismic acquired when the Company was awarded the Malta licences at the end of 2007.

In Pakistan, we are in the process of acquiring infill seismic in the Zamzama North Block. The current seismic database used to map the Zamzama North Block comprises some 750 kilometres of fair to good quality, 2D seismic. On the basis of this data we have mapped a number of structural leads. An exploration well is planned to be drilled in the second half of this year following interpretation of the current seismic programme.

***Genel Enerji A.S.***

In June 2009, Heritage announced that it had entered into a non-binding Memorandum of Understanding with Genel Enerji A.S. (“Genel”) to acquire the entire share capital of Genel Energy International Limited (“Genel Energy”). In November 2009, after signing a LOI with Eni for the sale of our Ugandan interests, discussions with Genel were terminated before the terms of a definitive agreement had been settled.

***Operating Capability***

We are proud of both our environmental and safety records. We have continued our goal of pursuing operational excellence and have achieved the challenging goals set for last year. In addition, we have also maintained an excellent track record of no significant environmental issues. Last year’s lost time incident frequency rate was well below industry average and was achieved at a time when Heritage’s operational scope increased significantly.

***Outlook***

2010 is set to be another significant year for Heritage. We have never been stronger financially and we believe that we have a very valuable and prospective portfolio which will see high impact drilling in Kurdistan, Malta and Pakistan. Capital expenditures in 2010 are expected to be approximately \$155 million, of which approximately \$100 million will be allocated to exploration and appraisal activities and approximately \$55 million to production and development activities.

In summary, 2010 promises to be a year of significant change for Heritage as we increase production, continue with high impact exploration and look for further exciting opportunities for our portfolio.

As always, I am very grateful to our talented management team and employees and supportive Board for their dedication and contribution to the remarkable progression made by Heritage this past year.

Finally, to our shareholders, thank you for your continued support and interest in Heritage.

**Anthony Buckingham**  
**Chief Executive Officer**

## FINANCIAL REVIEW

2009 saw several corporate developments leaving the Company with a strong balance sheet and financial flexibility for 2010.

### Selected Operational and Financial Data

		<b>2009</b>	<b>Restated<sup>1</sup> 2008</b>	<b>Change</b>
Production from continuing operations	bopd	329	379	(13%)
Sales volume from continuing operations	bopd	368	339	9%
Average realised price	\$/bbl	20.2	31.0	(35%)
Petroleum revenue from continuing operations	\$ million	2.7	3.8	(29%)
Loss from continuing operations	\$ million	(36.8)	(43.3)	15%
Loss from discontinued operations	\$ million	(2.5)	(2.9)	14%
Net loss	\$ million	(39.3)	(46.2)	15%
Total cash capital expenditures	\$ million	(104.1)	(103.2)	
Year end cash balance	\$ million	208.1	90.6	

<sup>1</sup> See basis of change in accounting policies (note 3 of the financial statements) and discontinued operations (note 5 of the financial statements).

The Company has changed its accounting policy in relation to the recognition of equity or financial liabilities arising from the issue of convertible bonds. As a result, the loss for the year ended 31 December 2008 has been restated to increase the previously reported net loss attributable to owners of the Company by \$4.9 million to \$46.2 million. Uganda and Oman operations have been classified as discontinued operations and therefore the 2008 numbers have been restated accordingly.

### Corporate Performance

#### *Production and Sales Volumes*

Following the disposal of our Oman operations, with effect from 1 January 2009, all production revenue from continuing operations is generated from the Zapadno Chumpasskoye Field in Russia. For the 2009 and 2008 financial statements Oman has been classified as discontinued operations following its sale in April 2009.

Average daily production from continuing operations decreased by 13% from 379 bopd in 2008 to 329 bopd in 2009. This decrease resulted from the shut in of the Zapadno Chumpasskoye Field between December 2008 and February 2009 due to unfavourable domestic market conditions in Russia. Crude production recommenced in March 2009 and averaged 420 bopd for the remainder of 2009.

Notwithstanding lower average daily production, average daily sales volumes increased by 9% year on year due to increased sales from inventories.

#### *Revenue*

Petroleum revenue, from continuing operations, decreased 29% to \$2.7 million, due to lower average realised prices mitigated by slightly higher volumes of crude oil sales. The average

realised price per barrel in 2009 of \$20.20 was 35% lower than in 2008, driven by lower average commodity prices in Russia in 2009.

### ***Operating Results***

Petroleum operating costs, from continuing operations, decreased by 10% to \$1.5 million in 2009, due to lower crude oil production.

Production tax in Russia decreased from \$2.6 million in 2008 to \$1.3 million in 2009 as a result of both lower volumes of oil production and decreased average commodity prices in 2009 used in the calculation of production tax.

General and administrative expenses decreased from \$21.0 million in 2008 to \$18.7 million in 2009. This is due, principally, to lower non-cash share-based compensation expenses. Share-based compensation expenses were lower as the fair value of a number of share options issued previously had been fully recognised by the end of 2008.

If share-based compensation expenses are excluded, net general and administrative expenses increased from \$13.6 million in 2008 to \$15.6 million in 2009. This 15% increase resulted mainly from an increase in the bonuses in 2009 in comparison with 2008. In 2009, the Group capitalised \$3.5 million (2008 — \$6.3 million) of general and administrative costs relating to exploration and development activities, including share-based compensation of \$2.1 million (2008 — \$4.6 million).

Corporate reorganisation and subsequent listing costs of \$9.7 million incurred in 2008 represent a one-off expense relating to the Company's re-domiciling to the London Stock Exchange ("LSE") in March of that year.

Acquisition expenses of \$7.1 million in 2009 represent one-off expenses relating to an aborted acquisition of Genel Energy. In November 2009, Heritage announced that the discussions with Genel had been terminated and consequently all expenses incurred with respect to the planned acquisition of Genel Energy were expensed.

Depletion, depreciation and amortisation expenses decreased by 18% to \$1.7 million in 2009, primarily due to lower production volumes.

Exploration expenditures, expensed in the year and not capitalised, decreased from \$0.8 million in 2008 to de minimis levels in 2009 due to the Group's focus on its existing exploration portfolio.

In 2009, the Group recognised an impairment write-down of property, plant and equipment of \$2.9 million (2008 – \$0.7 million) relating to a reduction in the fair value of the corporate jet due to unfavourable economic conditions. The impairment loss of \$0.7 million in 2008 related to the write-down of a drilling rig.

In 2009, interest income was \$0.6 million (2008 — \$4.0 million). Cash and cash equivalents are typically held in interest bearing treasury accounts. This reduction in interest income is primarily due to a reduction in average interest rates received in 2009.

Convertible bonds are separated into equity, liability and derivative liability components (being the bondholders' conversion option of the host bond contract and the bondholders' put option) and each component is recognised separately. The Company had the right to redeem, in whole or part, the bonds for cash at any time on or before 16 February 2008, at 150% of par value (the "Company call option").

Due to significant volatility that movements in the Company's share price created in the income statement under its previous treatment, the Company reassessed its accounting policy in respect of its convertible debt. The Company previously assessed the debt/equity classification of each component of a compound financial instrument only on issue or where there was a change in contractual terms. However, an alternative policy is to make this assessment throughout the life of the instrument and, in particular, to treat changes in effective terms, such as the lapsing of the Company's call option, in the same way as changes in contractual terms, i.e. as requiring reassessment. The Company decided to change accounting policy from the former option to the latter believing that the latter option better reflected the commercial terms of the financial instruments operative currently. Prior year results have been restated to reflect the new policy.

On the basis of the changed policy, on expiry of the Company's call option in February 2008, the bondholders' conversion option has been reclassified from a liability classification (with all changes in fair value being reflected in the income statement) to an equity classification. Consequently, the fair value of bondholders' conversion option of \$30.6 million has been transferred to equity at that date with no subsequent income statement impact; a gain of \$6.1 million was recognised up to that date.

At 30 June 2009, the carrying value of investments in unlisted securities (shares of SeaDragon Offshore Limited ("SeaDragon")) was written down to nil following completion of a financial reorganisation by SeaDragon and resulted in an impairment write-down of \$2.4 million in 2009. It is not possible to determine whether any of the original investment will be recoverable in the near future.

Other finance costs decreased from \$11.3 million in 2008 to \$4.3 million 2009, due primarily to bondholders exercising their conversion rights in respect of \$30.6 million of convertible bonds in 2009 and forgoing the right to earn any interest. Additionally, the level of interest costs capitalised was higher in 2009 compared to 2008 due to increased cumulative amounts of capital expenditures financed from interest bearing borrowings.

The Group incurred foreign exchange losses of \$1.0 million in 2009 (2008 — \$5.6 million), primarily as a result of the strengthening of sterling against the US dollar, as the loan secured on an office in London is sterling-denominated. An office building in London is not revalued for exchange rate purposes, but acts as a natural hedge against adverse movements in exchange rates with this loan.

Heritage recognised an unrealised gain of \$1.0 million in 2009 compared to a loss of \$1.7 million in 2008, in the fair value of its investment in Afren plc ("Afren") warrants. The gain or loss is determined by the performance of the share price of Afren. Heritage holds 1,500,000 warrants in Afren with an exercise price of £0.60 per warrant, received as partial consideration from the sale of Heritage Congo Limited in 2006. The warrants have a term until 22 December 2011. At 31 December 2009, Afren's share price was £0.85 per share.

Heritage's loss from continuing operations in 2009 was \$36.8 million, compared to \$43.3 million in 2008. The adjusted loss from continuing operations in 2009 was \$21.2 million compared to \$20.8 million in 2008 if certain non-cash items (share-based compensation expense, gain on derivative financial liability, property, plant and equipment impairment write-down, impairment of investment in unlisted securities, foreign exchange gains/losses and unrealised gain/loss on revaluation of Afren warrants) and the one-off aborted acquisition costs and reorganisation costs are excluded.

#### ***Disposals and Proposed Disposal***

On 7 April 2009, the Company completed the sale of Eagle Energy, a wholly owned subsidiary of Heritage, to RAK Petroleum Oman Limited for \$28 million, plus a working capital

adjustment of \$0.4 million, both of which were received in 2009. Eagle Energy, which had a 10% interest in Block 8 offshore Oman, was acquired by the Company in 1996. Block 8 contains the Bukha field which has been producing since 1994 and the West Bukha field which commenced production in February 2009.

On 18 December 2009, Heritage announced it had entered into a SPA for the sale of its 50% interests in Blocks 1 and 3A in Uganda (“the Disposed Assets”). The Disposed Assets consideration comprises cash of \$1.35 billion and a further contingent, deferred consideration of either \$150 million in cash or an interest in a mutually agreed producing oil field independently valued at a similar amount.

The results of operations in Uganda and Oman have been classified as discontinued operations. The loss on disposal of discontinued operations in Oman was \$0.7 million in 2009. The loss from discontinued operations in Uganda was \$1.8 million in 2009 compared to the loss from discontinued operations of \$2.9 million in 2008 relating to discontinued operations in Oman.

In 2009, the basic and diluted loss per share from continuing operations was \$0.13, compared to the basic and diluted loss per share from continuing operations of \$0.17 in 2008.

Heritage’s net loss in 2009 was \$39.3 million, compared to \$46.2 million in 2008. The adjusted net loss in 2009 was \$23.7 million, compared to \$23.7 million in the previous year if certain non-cash items (share-based compensation expense, gain on derivative financial liability, property, plant and equipment impairment write-down, impairment of investment in unlisted securities, foreign exchange gains/losses and unrealised gain/loss on revaluation of Afren warrants) and one-off aborted acquisition costs and reorganisation costs are excluded.

In 2009, the basic and diluted loss per share was \$0.14, compared to the basic and diluted loss per share of \$0.18 in 2008.

#### ***Cash Flow and Capital Expenditures***

Cash used in operating activities was \$20.7 million in 2009 compared to \$32.8 million in 2008. Total cash capital expenditures in 2009 of \$104.1 million were broadly in line with the previous year (2008 — \$103.2 million). The following major work programmes were undertaken in 2009:

- in March 2009, Heritage completed drilling of the Miran West-1 well in Kurdistan. The Miran West-1 well reached target depth of 2,935 metres in March 2009. Testing completed in August 2009 and a flow rate of 3,640 bopd was recorded from a single reservoir interval. The well was suspended as a future producer, with an anticipated production rate of between 8,000 - 10,000 bopd for the well;
- the Miran West-2 well commenced drilling in November 2009;
- in February 2009, Heritage completed successful drilling of the Kingfisher-3A well in Block 3A, Uganda. The well reached a total measured depth of 2,712 metres (1,875 metres true vertical depth) and was suspended as a future production well, along with previously drilled and suspended Kingfisher-1A and Kingfisher-2 wells; and
- in February 2009, Heritage completed the acquisition of 2D seismic in the Kimbiji and Kisangire licence areas in Tanzania.

#### **Financial Position**

##### ***Liquidity***

Heritage had a net increase in cash and cash equivalents in 2009 of \$117.5 million. At 31 December 2009, Heritage had a working capital surplus of \$337.8 million, including cash and cash equivalents of \$208.1 million.

Like most oil and gas exploration companies, Heritage raises financing for its activities from time to time using a variety of sources. Sources of funding for future exploration and development programmes will be derived from *inter alia* disposal proceeds from the sale of assets, such as the sale of the Company's holdings in Oman in 2009 and the proposed disposal of its interests in Blocks 1 and 3A in Uganda (see disposals section of the Financial Review on pages 11 to 12), using its existing treasury resources, new credit facilities, reinvesting its funds from operations, farm-outs and, when considered appropriate, issuing debt and additional equity. Accordingly, the Group has the ability to access a number of different sources of finance.

### ***Capital Structure***

Heritage's financial strategy has been to fund its capital expenditure programmes and any potential acquisitions by selling non-core assets, reinvesting funds from operations, using existing treasury resources, finding new credit facilities and, when considered appropriate, either issuing unsecured convertible bonds or equity.

On 7 April 2009, the Company completed the sale of Eagle Energy, a wholly owned subsidiary of Heritage, to RAK Petroleum Oman Limited for \$28 million, plus a working capital adjustment of \$0.4 million.

On 18 June 2009, the Company completed the placing of 25,400,000 new Ordinary Shares at a price of £5.20 per share for gross proceeds of \$216,848,944 (£132,080,000). Share issue costs were \$11,820,609 (£7,157,379).

Heritage had net cash of \$41.7 million (cash and cash equivalents less total liabilities) and nil gearing (net debt as a percentage of total shareholders' equity) at 31 December 2009 compared with net debt of \$121.1 million (excess of total liabilities over cash and cash equivalents) and gearing of 39% at 31 December 2008.

### **Important Events Subsequent to the Year End**

On 18 December 2009, Heritage announced that the Company, and its subsidiary Heritage Oil & Gas Limited, had entered into a SPA with Eni for the sale of its 50% interests in Blocks 1 and 3A in Uganda. On 17 January 2010, Tullow Uganda Limited exercised its right to preempt the sale of the Disposed Assets to Eni on the same terms and conditions as agreed in the SPA entered into between Heritage and Eni. The transaction was overwhelmingly approved by shareholders at the General Meeting on 25 January 2010.

In April 2010, Heritage announced that it had received a letter from the Ugandan Government stating that it supports Heritage's sale and transfer of its Ugandan interests and that it will conclude its review of the transaction within eight weeks. Following this, Heritage expects to receive formal consent and to close the transaction shortly thereafter.

### **Risk and Internal Controls**

Heritage's business, financial standing and reputation may be impacted by various risks, not all of which are within its control. The Group identifies and monitors the key risks and uncertainties affecting the Group and runs its business in a way that minimises the impact of such risks where possible.

#### ***Internal Controls***

A system of internal controls was designed and tailored to ensure key risks are addressed appropriately and to provide assurance regarding the reliability of financial reporting and preparation of financial statements. Risk and internal controls are assessed continually. One possible weakness has been identified, concerning accounting for complex transactions, although the Company seeks third party advice to mitigate against this weakness.

As part of the internal controls, all transactions with related parties are identified, scrutinised and disclosed in the financial statements appropriately.

Heritage maintains insurance policies in accordance with industry standards. Heritage believes that the level of insurance cover it maintains is adequate based on various factors such as the cost of the policies, industry standard practice and the risks associated with the exploration and development of oil and gas properties in the countries in which it operates. Heritage does not insure against political risk and, therefore, shareholders have full exposure to the risks and rewards of investing in its territories.

Heritage maintains detailed financial models which allows the Company to plan future operating and capital activities in an efficient manner.

**Paul Atherton**  
**Chief Financial Officer**

***Financial Information Included in This Announcement***

*The following information included in this Announcement does not constitute audited financial statements of the Group. The Accounts for the year ended 31 December 2009 have been audited and posted on the Group's website. The auditors have issued an unqualified opinion on those Accounts. The following financial information has been extracted from those Accounts.*

*These consolidated financial statements of the Group include the results of the Company and all subsidiaries over which the Company exercises control.*

*The Company's consolidated financial statements are presented in US dollars, which is the Company's functional and presentation currency.*

*The accounting policies applied in the preparation of these consolidated financial statements are consistent with those applied by the Company in its consolidated financial statements as at and for the year ended 31 December 2008, except for the changes in accounting policy described in note 3 to the financial statements.*

**HERITAGE OIL PLC**  
**CONSOLIDATED INCOME STATEMENT**

**Years ended 31 December 2009 and 2008**

	Note	2009	Restated <sup>1</sup> 2008
		\$	\$
<b>Revenue</b>			
Petroleum		2,704,987	3,836,991
<b>Expenses</b>			
Petroleum operating		(1,492,597)	(1,652,766)
Production tax		(1,304,255)	(2,618,806)
General and administrative		(18,676,326)	(21,032,142)
Corporate reorganisation and subsequent listing costs		-	(9,654,622)
Aborted acquisition expenses		(7,142,335)	-
Depletion, depreciation and amortisation		(1,710,123)	(2,085,481)
Exploration expenditures		(201,571)	(786,398)
Impairment of property, plant and equipment		(2,933,374)	(749,955)
		<b>(30,755,594)</b>	<b>(34,743,179)</b>
<b>Operating loss</b>			
<b>Finance income (costs)</b>			
Interest income		563,633	3,954,749
Gain on derivative financial liability relating to convertible bonds		-	6,098,240
Other finance costs		(4,329,065)	(11,257,187)
Impairment of investment in unlisted securities		(2,352,825)	-
Foreign exchange losses		(1,009,783)	(5,648,179)
Unrealised gain /(loss) on other financial assets		1,046,724	(1,713,700)
		<b>(6,081,316)</b>	<b>(8,566,077)</b>
<b>Loss from continuing operations</b>		<b>(36,836,910)</b>	<b>(43,309,256)</b>
<b>Loss on disposal of discontinued operations</b>	5	(2,509,977)	-
<b>Loss from discontinued operations</b>	5	-	(2,850,270)
<b>Loss from discontinued operations</b>		<b>(2,509,977)</b>	<b>(2,850,270)</b>
<b>Net loss for the year attributable to owners of the Company</b>		<b>(39,346,887)</b>	<b>(46,159,526)</b>

<sup>1</sup> See change in accounting policies (note 3) and discontinued operations (note 5).

The notes are an integral part of these consolidated financial statements.

**HERITAGE OIL PLC**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

**Years ended 31 December 2009 and 2008**

	<b>2009</b>	<b>Restated <sup>1</sup></b>
	<b>\$</b>	<b>\$</b>
<b>Loss for the year</b>	(39,346,887)	(46,159,526)
<b>Other comprehensive loss</b>		
Exchange differences on translation of foreign operations	(594,962)	(651,365)
Cumulative gains on available for sale investments transferred to income statement on impairment of investments	(168,000)	-
<b>Other comprehensive loss, net of income tax</b>	<u>(762,962)</u>	<u>(651,365)</u>
<b>Total comprehensive loss for the year</b>	<u>(40,109,849)</u>	<u>(46,810,891)</u>
<b>Attributable to:</b>		
Owners of the Company	<u>(40,109,849)</u>	<u>(46,810,891)</u>
 <b>Net loss per share from continuing operations</b>		
Basic and diluted	<u>(0.13)</u>	<u>(0.17)</u>
 <b>Net loss per share from discontinued operations</b>		
Basic and diluted	<u>(0.01)</u>	<u>(0.01)</u>
 <b>Net loss per share</b>		
Basic and diluted	<u>(0.14)</u>	<u>(0.18)</u>

The total comprehensive loss for the year of \$40,109,849 (2008 - \$46,810,891) includes a loss of \$2,509,977 (2008 - \$2,850,270) from discontinued operations (note 5).

<sup>1</sup> See change in accounting policies (note 3) and discontinued operations (note 5).

The notes are an integral part of these consolidated financial statements.

**HERITAGE OIL PLC**  
**CONSOLIDATED BALANCE SHEET**

**As at 31 December 2009 and 2008**

	<u>Note</u>	<u>2009</u>	<u>Restated <sup>1</sup></u>
		\$	\$
<b>ASSETS</b>			
<b>Non-current assets</b>			
Intangible exploration assets	6	121,278,468	211,346,037
Property, plant and equipment	7	59,297,735	88,039,218
Other financial assets	8	1,154,225	3,330,501
		<u>181,730,428</u>	<u>302,715,756</u>
<b>Current assets</b>			
Inventories		12,969	395,109
Prepaid expenses		568,166	664,759
Assets of a disposal group classified as held for sale	5	163,414,518	-
Trade and other receivables		2,203,707	6,901,511
Cash and cash equivalents		208,094,355	90,620,385
		<u>374,293,715</u>	<u>98,581,764</u>
		<u>556,024,143</u>	<u>401,297,520</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Liabilities of a disposal group classified as held for sale	5	12,558,727	-
Trade and other payables		23,278,030	54,751,768
Borrowings		615,892	595,418
		<u>36,452,649</u>	<u>55,347,186</u>
<b>Non-current liabilities</b>			
Borrowings	9	129,553,752	155,609,982
Provisions		355,073	719,808
		<u>129,908,825</u>	<u>156,329,790</u>
		<u>166,361,474</u>	<u>211,676,976</u>
<b>Net Assets</b>		<u>389,662,669</u>	<u>189,620,544</u>
<b>SHAREHOLDERS' EQUITY ATTRIBUTABLE TO</b>			
<b>EQUITY HOLDERS OF THE COMPANY</b>			
Share capital	10	460,279,555	218,283,881
Reserves		82,546,697	85,153,359
Retained deficit		<u>(153,163,583)</u>	<u>(113,816,696)</u>
		<u>389,662,669</u>	<u>189,620,544</u>

<sup>1</sup> See change in accounting policies (note 3)

The notes are an integral part of these consolidated financial statements.

**HERITAGE OIL PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

Year ended 31 December 2009

	Share Capital	Foreign currency translation reserve	Available- for-sale investments revaluation reserve	Share- based payments reserve	Retained deficit	Equity portion of convertible debt	Total equity
	\$	\$	\$	\$	\$	\$	\$
<b>Balance at 1 January 2009 (as restated<sup>1</sup>)</b>	218,283,881	(220,784)	168,000	54,564,393	(113,816,696)	30,641,750	189,620,544
<b>Total comprehensive income for the year</b>							
Loss for the year	—	—	—	—	(39,346,887)	—	(39,346,887)
<b>Other comprehensive loss</b>							
Exchange differences on translation of foreign operations	—	(594,962)	—	—	—	—	(594,962)
Cumulative gains on available for sale investments transferred to income statement on impairment of investments	—	—	(168,000)	—	—	—	(168,000)
<b>Total other comprehensive loss</b>	—	(594,962)	(168,000)	—	—	—	(762,962)
<b>Total comprehensive loss for the year</b>	—	(594,962)	(168,000)	—	(39,346,887)	—	(40,109,849)
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Issue of shares, net	205,028,335	—	—	—	—	—	205,028,335
Issue of shares on conversion of bonds	34,199,616	—	—	—	—	(5,992,595)	28,207,021

Share-based payment transactions and exercise of share options	<u>2,767,723</u>	<u>—</u>	<u>—</u>	<u>4,148,895</u>	<u>—</u>	<u>—</u>	<u>6,916,618</u>
<b>Total</b>							
<b>transactions</b>							
<b>with owners</b>	<u>241,995,674</u>	<u>—</u>	<u>—</u>	<u>4,148,895</u>	<u>—</u>	<u>(5,992,595)</u>	<u>240,151,974</u>
<b>Balance at 31</b>							
<b>December</b>							
<b>2009</b>	<u>460,279,555</u>	<u>(815,746)</u>	<u>—</u>	<u>58,713,288</u>	<u>(153,163,583)</u>	<u>24,649,155</u>	<u>398,662,669</u>

<sup>1</sup> See change in accounting policies (note 3) and discontinued operations (note 5). As at 31 December 2008, the equity portion of convertible debt was previously stated as nil and retained deficit was previously stated at \$108,960,421.

The notes are an integral part of these consolidated financial statements.

**HERITAGE OIL PLC**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Year ended 31 December 2008						
	Share Capital \$	Foreign currency translation reserve \$	Available- for-sale investments revaluation reserve \$	Share- based payments reserve \$	Retained deficit	Equity portion of convertible debt \$	Total equity \$
<b>Balance at 1 January 2008</b>	217,672,243	430,580	168,000	42,579,779	(67,657,170)	—	193,193,432
<b>Total comprehensive income for the year</b>							
Loss for the year	—	—	—	—	(46,159,526)	—	(46,159,526)
<b>Other comprehensive loss)</b>							
Exchange differences on translation of foreign operations	—	(651,364)	—	—	—	—	(651,364)
Net change in fair value of available for sale financial assets	—	—	—	—	—	—	—
<b>Total other comprehensive loss</b>	—	(651,364)	—	—	—	—	(651,364)
<b>Total comprehensive loss for the year</b>	—	(651,364)	—	—	(46,159,526)	—	(46,810,890)
<b>Transactions with owners, recorded directly in equity</b>							
<b>Contributions by and distributions to owners</b>							
Issue of shares, net	83	—	—	—	—	—	83
Share-based payment transactions and exercise of share options	611,555	—	—	11,984,614	—	—	12,596,169
Recognition of equity portion of convertible bonds	—	—	—	—	—	30,641,750	30,641,750
<b>Total transactions with owners</b>	611,638	—	—	11,984,614	—	30,641,750	43,238,002

<b>Balance at 31</b>							
<b>December 2008</b>							
<b>(as restated<sup>1</sup>)</b>	<u>218,283,881</u>	<u>(220,784)</u>	<u>168,000</u>	<u>54,564,393</u>	<u>(113,816,696)</u>	<u>30,641,750</u>	<u>189,620,544</u>

<sup>1</sup> See change in accounting policies (note 3) and discontinued operations (note 5). As at 31 December 2008, the equity portion of convertible debt was previously stated as nil and retained deficit was previously stated at \$108,960,421.

The notes are an integral part of these consolidated financial statements.

**HERITAGE OIL PLC**  
**CONSOLIDATED CASH FLOW STATEMENT**

**Years ended 31 December 2009 and 2008**

	<u>Note</u>	<u>2009</u>	<u>Restated <sup>1</sup></u>
		\$	\$
<b>Cash Provided by (used in) Operating Activities</b>			
Net loss from continuing operations for the year		(36,836,910)	(43,309,256)
Items not affecting cash			
Depletion, depreciation and amortisation		1,710,123	2,085,481
Finance costs—accretion expenses		4,163,407	4,183,874
Foreign exchange (gains) losses		(1,333,051)	320,580
Share-based compensation		3,206,848	7,595,542
Gains on derivative financial liability		-	(6,098,240)
Gain on other financial assets		(1,046,724)	1,713,700
Impairment of property, plant and equipment		2,933,374	749,955
Impairment of investment in unlisted securities		2,352,825	-
(Increase)/decrease in trade and other receivables		(333,817)	1,003,352
(Increase)/decrease in prepaid expenses		96,593	(217,488)
(Increase)/decrease in inventory		316,858	(330,283)
Increase/(decrease) in trade and other payables		4,092,413	(1,432,138)
Continuing operations		<u>(20,678,061)</u>	<u>(33,734,921)</u>
Discontinued operations		<u>-</u>	<u>928,722</u>
		<u>(20,678,061)</u>	<u>(32,806,199)</u>
<b>Investing</b>			
Exercise of third party back-in rights for Miran		6,737,635	-
Property, plant and equipment expenditures		(3,889,675)	(14,588,292)
Intangible exploration expenditures		<u>(49,642,876)</u>	<u>(40,403,265)</u>
		<u>(46,794,916)</u>	<u>(54,991,557)</u>
<b>Discontinued operations</b>			
Net consideration on disposal		28,198,780	-
Property, plant and equipment expenditures and intangible exploration expenditures		<u>(50,613,067)</u>	<u>(48,227,622)</u>
		<u>(69,209,203)</u>	<u>(103,219,179)</u>
<b>Financing</b>			
Shares issued for cash		216,848,944	83
Shares issued for cash, proceeds from exercise of options		1,647,110	361,454
Shares issue costs		(11,820,609)	-
Repayment of long-term debt		<u>(604,483)</u>	<u>(616,118)</u>
		<u>206,070,962</u>	<u>(254,581)</u>
<b>Increase/(decrease) in cash and cash equivalents</b>		<u>116,183,698</u>	<u>(136,279,959)</u>
<b>Cash and cash equivalents—beginning of year</b>		90,620,385	230,089,323
Foreign exchange gain/(loss) on cash held in foreign currency		1,290,272	(3,188,979)
<b>Cash and cash equivalents—end of year</b>		<u><u>208,094,355</u></u>	<u><u>90,620,385</u></u>

**Non-Cash Investing and Financing Activities** **13**  
**Supplementary information**

The following have been included within cash flows  
for the year under operating and investing  
activities

Interest received	593,244	3,152,480
Interest paid	11,737,678	6,876,764
Corporate reorganisation and subsequent listing costs	-	9,654,622
Aborted acquisition expenses	6,342,335	-

<sup>1</sup> See change in accounting policies (note 3) and discontinued operations (note 5).

The notes are an integral part of these consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### 1. Reporting Entity

Heritage Oil Plc (the “Company”) was incorporated under the Companies (Jersey) Law 1991 (as amended) on 6 February 2008 as Heritage Oil Limited. The Company changed its name to Heritage Oil Plc on 18 June 2009. Its primary business activity is the exploration, development and production of petroleum and natural gas in Africa, the Middle East and Russia. The Company was established in order to implement a corporate reorganisation of Heritage Oil Corporation (“HOC”, the “Corporation”).

These consolidated financial statements include the results of the Company and all subsidiaries over which the Company exercises control. The Company together with its subsidiaries are referred to as the Group. The key subsidiaries consolidated within these financial statements include *inter alia* Heritage Oil Corporation, Heritage Oil & Gas Limited, Eagle Energy (Oman) Limited (disposed in 2009 (note 5)), Heritage Oil and Gas (U) Limited, Heritage Energy Middle East Limited, Heritage DRC Limited, Coatbridge Estates Limited, ChumpassNefteDobycha, Neftyanaya Geologicheskaya Kompaniya, Heritage Oil & Gas (Austria) GesmbH, Heritage Mali Block 7 Limited, Heritage Mali Block 11 Limited, Heritage Energy Holding GesmbH, Heritage Oil & Gas (Gibraltar) Limited, TISE-Heritage Neftegaz, Begal Air Limited, Heritage International Holding GesmbH, Heritage Oil & Gas Holdings Limited, Eagle Drill Limited, Heritage Oil (Barbados) Limited, Heritage Oil & Gas (Switzerland) SA, Heritage Oil International Malta Limited, 1381890 Alberta ULC, Heritage Oil Cooperatief U.A., Heritage Oil Holdings Limited, Heritage International VOF, Heritage (International) Holding (Gibraltar) Limited, Heritage Tanzania Kimbiji-Latham Limited, Heritage Tanzania Kisangire Limited and Heritage Oil Tanzania Limited.

The Company’s consolidated financial statements are presented in US dollars, which is the Company’s functional and presentation currency.

The financial statements were approved by the Board and authorised for issuance on 29 April 2010.

### 2. Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”).

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value.

The Company’s consolidated financial statements are presented in US dollars, which is the Company’s functional and presentation currency.

The Group had available cash of \$208 million at 31 December 2009. Based on its current plans and knowledge, its projected capital expenditure and operating cash requirements, the Group has sufficient cash to finance its operations for more than 12 months from the date of this report. As for most oil and gas exploration companies, Heritage raises financing for its activities from time to time using a variety of sources. Sources of funding for future exploration and development programmes will be derived from *inter alia* disposal proceeds from the sale of assets, such as the sale of the Company’s holdings in Oman in 2009 and the proposed disposal of its 50% interests in Blocks 1 and 3A, Uganda (note 5), using its existing treasury resources, new credit facilities, reinvesting its funds from operations, farm-outs and, when considered appropriate, issuing debt and additional equity. Accordingly, the Group has a

number of different sources of finance available and the Directors are confident that additional finance will be raised as and when needed.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

### **3. Change in Accounting Policies**

#### ***(i) Presentation of Financial Statements***

In 2009, the Group has applied IAS 1 Presentation of Financial Statements (revised 2007) which has introduced a number of terminology changes and has resulted in a number of changes in presentation and disclosure. The revised standard has had no impact on the reported results or financial position of the Group.

#### ***(ii) Determination and Presentation of Operating Segments***

As of January 2009, the Group determines and presents operating segments based on the information that internally is provided to the Chief Executive Officer ("CEO"), who is the Group's chief operating decision maker. This change in accounting policy is due to the adoption of IFRS 8 Operating Segments. Previously operating segments were determined and presented in accordance with IAS 14 Segment Reporting. The new accounting policy in respect of segment operating disclosures is presented as follows.

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

An operating segment's operating results, for which discrete financial information is available, are reviewed regularly by the CEO and Chief Financial Officer ("CFO") to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the CEO and CFO include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, corporate offices expenses and liabilities.

Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, and intangible assets other than goodwill.

#### ***(iii) Borrowings***

In 2009, the Company changed its accounting policy in relation to the recognition of equity or financial liabilities arising from the issue of convertible bonds. Previously the Company made the assessment of whether the conversion feature is a derivative liability or an equity instrument on initial recognition only and did not revisit that assessment, absent any actual change in the contractual terms. It is now the Company's policy to reassess the classification during the life of the convertible bond and reclassify between liabilities and equity when appropriate. In particular, the Company now adopts a policy of reassessing the initial classification when there has been a change in the effective terms of the contract. It was the existence of the Company call option that resulted in derivative treatment for the conversion option in the convertible bond issued on 16 February 2007. Following the expiry of that option the Company has under this new policy reclassified the conversion option as an equity instrument from that date. The Company believes this new policy provides reliable and more

relevant information as it bases the classification of such instruments on the terms that are currently operative.

In accordance with the requirements of IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors) the change has been made retrospectively and the comparatives have been restated accordingly.

As a result, the loss for continuing operations for the year ended 31 December 2008 has been restated to increase the previously reported net loss attributable to owners of the Company by \$4.9 million to \$46.2 million. These adjustments have been taken up in finance income (costs). In addition, non-current derivative financial liabilities were reduced by \$25.8 million to nil at 31 December 2008 and the fair value of the conversion feature as at 16 February 2008 of \$30.6 million was transferred to equity through the Statement of Changes in Equity. If the accounting policy had not changed then an additional loss of \$63.5 million would have been recognised in the income statement for the year ended 31 December 2009 and a non-current derivative financial liability of \$89.2 million would have been recognised in the balance sheet at 31 December 2009. The change in accounting policy had no impact on the cash flow statement. No consolidated balance sheet as at 1 January 2008 has been presented because the change in accounting policy had no impact at that date.

#### 4. Segment Information

The Group has a single class of business which is international exploration, development and production of petroleum oil and natural gas. The geographical areas are defined by the Company as operating segments in accordance with IFRS 8 Operating Segments. The Group operates in a number of geographical areas based on location of operations and assets, being Russia, Uganda (discontinued), DRC, Kurdistan, Pakistan, Tanzania, Malta, Mali and Oman (discontinued). The Group's reporting segments comprise each separate geographical area in which it operates.

	<b>Year ended 31 December 2009</b>					
	<b>External revenue</b>	<b>Segment result</b>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Capital additions</b>	<b>Depreciation, depletion and amortisation</b>
	\$	\$	\$	\$	\$	\$
Russia	2,704,987	(1,776,429)	48,958,518	572,081	3,264,979	761,911
DRC	-	-	1,687,617	-	80,852	-
Kurdistan	-	(6,828)	80,611,911	6,660,587	37,119,614	-
Pakistan	-	-	1,734,090	-	52,670	-
Tanzania	-	-	20,402,386	198,658	6,904,501	-
Mali	-	-	2,018,449	-	768,851	-
Malta	-	-	11,111,097	44,105	2,457,548	-
Uganda – discontinued operations	-	(1,811,214)	163,414,518	12,558,727	28,486, 513	-
Oman— discontinued operations	-	(698,763)	-	-	500,000	-
Total for reportable segments	2,704,987	(4,293,234)	329,938,586	20,034,158	79,635,528	761,911
Corporate	-	(35,053,653)	226,085,557	146,327,316	631,740	948,212

Elimination of discontinued operations	-	2,509,977	(163,414,518)	(12,558,727)	(28,986,513)	-
Total from continuing operations	<u>2,704,987</u>	<u>(36,836,910)</u>	<u>392,609,625</u>	<u>153,802,747</u>	<u>51,280,755</u>	<u>1,710,123</u>

**Year ended 31 December 2008 (Restated<sup>1</sup>)**

	<b>External revenue</b>	<b>Segment result</b>	<b>Total assets</b>	<b>Total liabilities</b>	<b>Capital additions</b>	<b>Depreciation, depletion and amortization</b>
	\$	\$	\$	\$	\$	\$
Russia	3,836,991	(7,643,812)	43,123,180	446,935	9,550,153	1,070,410
DRC	-	-	1,606,765	-	760,545	-
Kurdistan	-	-	43,774,646	6,467,567	41,781,416	-
Pakistan	-	-	1,560,330	-	607,924	-
Tanzania	-	(204,515)	13,785,019	659,604	13,129,738	-
Mali	-	-	1,682,381	-	1,012,320	-
Malta	-	(14,831)	8,685,637	3,469	2,052,831	-
Uganda – discontinued operations	-	-	154,684,138	30,485,069	55,791,804	-
Oman— discontinued operations	<u>1,258,817</u>	<u>(2,850,270)</u>	<u>28,065,282</u>	<u>3,279,402</u>	<u>17,983,358</u>	<u>264,003</u>
Total for reportable segments	5,095,808	(10,713,428)	301,967,378	41,342,046	142,670,089	1,334,413
Corporate	-	(35,446,098)	99,330,143	170,334,930	870,924	1,015,071
Elimination of discontinued operations	<u>(1,258,817)</u>	<u>2,850,270</u>	<u>(182,749,420)</u>	<u>(33,764,471)</u>	<u>(73,775,162)</u>	<u>(264,003)</u>
Total from continuing operations	<u>3,836,991</u>	<u>(43,309,256)</u>	<u>218,548,101</u>	<u>177,912,505</u>	<u>69,765,851</u>	<u>2,085,481</u>

<sup>1</sup> See change in accounting policies (note 3) and discontinued operations (note 5). The loss for continuing operations for the year ended 31 December 2008 has been restated to increase the previously reported net loss attributable to owners of the Company by \$4.9 million to \$46.2 million. Oman and Uganda were classified as discontinued operations (note 5). Corporate activities include the financing activities of the Group and is not an operating segment.

There have been no changes to the basis of segmentation or the measurement basis for the segment result since 31 December 2008.

## 5. Discontinued Operations

### Uganda

On 18 December 2009, Heritage announced that the Company, and its subsidiary Heritage Oil Limited, had entered into a SPA with Eni for the sale of its 50% interests in Blocks 1 and 3A in Uganda. On 17 January 2010, Tullow Uganda Limited exercised its right to pre-empt the sale

of the Disposed Assets to Eni on the same terms and conditions as agreed in the SPA entered into between Heritage and Eni. The transaction was overwhelmingly approved by shareholders at the General meeting on 25 January 2010.

In April 2010, Heritage announced that it had received a letter from the Ugandan Government stating that it supports Heritage's sale and transfer of its Ugandan interests and that it will conclude its review of the transaction within eight weeks. Following this, Heritage expects to receive formal consent and to close the transaction shortly thereafter.

The results of the Uganda operations have been classified as discontinued operations. The segment was not classified as held for sale or discontinued operations at 31 December 2008 and the comparative income statement has been restated to show the discontinued operations separately from continuing operations.

Expenses incurred by the Company as at 31 December 2009 in respect of this disposal are included within loss on disposal of discontinued operations as follows:

	<b>Year ended 31 December</b>	
	<b>2009</b>	<b>2008</b>
	\$	\$
Loss on disposal of discontinued operations	(1,811,214)	—
	<u>(1,811,214)</u>	<u>—</u>

The following table provides additional information with respect to the assets held for sale in the balance sheet at 31 December 2009.

	<b>31 December 2009</b>
	\$
<b>Assets</b>	
<b>Non-current assets</b>	
Intangible exploration assets	158,518,547
	<u>158,518,547</u>
<b>Current assets</b>	
Accounts receivable	4,895,971
	<u>4,895,971</u>
<b>Total Assets</b>	<u>163,414,518</u>
<b>Current liabilities</b>	
Trade and other payables	12,301,188
	<u>12,301,188</u>
<b>Current liabilities</b>	
Provisions	257,539
	<u>257,539</u>
<b>Total Liabilities</b>	<u>12,558,727</u>
<b>Net assets</b>	<u>150,855,791</u>

## Oman

On 7 April 2009, the Company completed the sale of Eagle Energy, a wholly owned subsidiary of Heritage, to RAK Petroleum Oman Limited for \$28 million, plus a working capital adjustment of \$0.4 million. Eagle Energy held a 10% interest in Block 8, Oman. The segment was not classified as held for sale or discontinued operations at 31 December 2008 and the comparative income statement has been restated to show the discontinued operations separately from continuing operations.

The effective date of the transaction is 1 January 2009. The cash consideration of \$28 million and a working capital adjustment of \$0.4 million have been received. The Company acquired Eagle Energy, which had a 10% interest in Block 8 offshore Oman, in 1996. Block 8 contains the Bukha field which has been producing since 1994 and the West Bukha field which commenced production in February 2009.

The results of operations of Eagle Energy have been classified as losses from discontinued operations. The following table provides additional information with respect to the amounts included in loss from discontinued operations.

	<b>Year ended 31 December 2008</b>
	<u>\$</u>
<b>Revenue</b>	
Petroleum and natural gas	1,258,817
<b>Expenses</b>	
Petroleum and natural gas operating	(598,006)
Depletion, depreciation and amortisation	(264,003)
Impairment	<u>(3,247,078)</u>
	<u>(4,109,087)</u>
	<u>(2,850,270)</u>

The following table provides additional information with respect to the net assets sold at 7 April 2009.

	<b>7 April 2009</b>
	<u>\$</u>
<b>Assets</b>	
<b>Non-current assets</b>	
Intangible exploration assets	1,051,083
Property, plant and equipment	<u>27,448,917</u>
	<u>28,500,000</u>
<b>Current assets</b>	
Accounts receivable	246,783
Inventories	<u>65,282</u>
	<u>312,065</u>
<b>Net assets</b>	<u>28,812,065</u>

The loss on disposal of discontinued operations has been derived as follows:

	<b>7 April 2009</b>
	<u>\$</u>
Consideration received	
Sales proceeds	28,000,000
Working capital adjustments	<u>390,242</u>
Total disposal consideration	<u>28,390,242</u>
Less:	
Carrying amount of net assets sold	(28,812,065)
Other expenses	<u>(276,940)</u>
Loss on disposal of discontinued operations	<u>(698,763)</u>

## 6. Intangible Exploration Assets

	<b>31 December</b>	
	<b>2009</b>	<b>2008</b>
	<u>\$</u>	<u>\$</u>
At 1 January	211,346,037	102,862,754
Effect of movement in exchange rates	(130,853)	(1,448,654)
Exercise of third party back-in rights for Miran	(6,737,635)	-
Additions	76,370,549	115,136,798
Assets transferred to property, plant and equipment (note 7)	—	(5,204,861)
Disposal of Oman assets	(1,051,083)	-
Transfer of assets held for sale (Uganda)	<u>(158,518,547)</u>	<u>—</u>
At 31 December	<u>121,278,468</u>	<u>211,346,037</u>

No assets have been pledged as security. No exploration asset has been subject to impairment. The balances at the end of the years are as follows:

	<b>31 December</b>	
	<b>2009</b>	<b>2008</b>
	<u>\$</u>	<u>\$</u>
Russia	11,234,809	11,365,662
Oman	—	551,083
Uganda	—	130,032,034
DRC	1,587,616	1,506,765
Kurdistan	73,786,329	43,404,350
Pakistan	1,613,000	1,560,330
Malta	11,028,152	8,570,610
Mali	1,994,317	1,225,465
Tanzania	<u>20,034,245</u>	<u>13,129,738</u>
<b>Balance — end of year</b>	<u>121,278,468</u>	<u>211,346,037</u>

### Exercise of Third Party Back-in Rights

In April 2009, in accordance with the option outlined in the PSC in Kurdistan, the KRG nominated a third party participant in the Miran Block. The Company remains the operator with a 75% working interest in the Miran Block and has received the pro-rata share of 25% of all past work programme expenditures and the third party will be responsible for paying its share of future costs. The transaction was completed upon the receipt of approximately \$6.7 million in costs incurred by the Group to 31 January 2009. No gain/loss resulted from this transaction and intangible exploration assets reduced by \$6.7 million. The KRG and the Group have agreed to replace the agreement under which they had agreed in principle (subject to certain conditions which had not been satisfied) to jointly develop a refinery with an agreement under which the Group has agreed to make payments of up to \$35 million from future oil and gas sales from the licence.

### 7. Property, Plant and Equipment

	<b>Petroleum &amp; natural gas interests</b>	<b>Drilling and barge equipment</b>	<b>Land &amp; buildings</b>	<b>Other</b>	<b>Total</b>
	\$	\$	\$	\$	\$
<b>Cost</b>					
<b>At 1 January 2008</b>	<b>42,056,745</b>	<b>3,544,969</b>	<b>11,984,701</b>	<b>14,452,933</b>	<b>72,039,348</b>
Additions	27,533,291	-	-	870,924	28,404,215
Assets transferred from intangible exploration	5,204,861	-	-	-	5,204,861
Effect of movements in exchange rates	(3,426,524)	-	-	-	(3,426,524)
<b>At 31 December 2008</b>	<b>71,368,373</b>	<b>3,544,969</b>	<b>11,984,701</b>	<b>15,323,857</b>	<b>102,221,900</b>
Additions	3,264,979	-	-	631,740	3,896,719
Disposals	(31,092,333)	-	-	-	(31,092,333)
Effect of movements in exchange rates	(545,788)	-	-	-	(545,788)
<b>At 31 December 2009</b>	<b>42,995,231</b>	<b>3,544,969</b>	<b>11,984,701</b>	<b>15,955,597</b>	<b>74,480,498</b>
<b>Depletion, depreciation, amortisation and impairment losses</b>					
<b>At 1 January 2008</b>	<b>(3,981,438)</b>	<b>(2,147,503)</b>	<b>(452,329)</b>	<b>(1,232,160)</b>	<b>(7,813,430)</b>
Charge for the year	(1,290,992)	-	(139,178)	(942,049)	(2,372,219)
Impairment losses	(3,247,078)	(749,955)	-	-	(3,997,033)
<b>At 31 December 2008</b>	<b>(8,519,508)</b>	<b>(2,897,458)</b>	<b>(591,507)</b>	<b>(2,174,209)</b>	<b>(14,182,682)</b>
Charge for the year	(761,911)	-	(139,178)	(809,034)	(1,710,123)
Impairment losses	-	-	-	(2,933,374)	(2,933,374)
Disposals	3,643,416	-	-	-	3,643,416

<b>At 31 December 2009</b>	<b>(5,638,003)</b>	<b>(2,897,458)</b>	<b>(730,685)</b>	<b>(5,916,617)</b>	<b>(15,182,763)</b>
<b>Net book value:</b>					
At 31 December 2008	62,848,865	647,511	11,393,194	13,149,648	88,039,218
<b>At 31 December 2009</b>	<b>37,357,228</b>	<b>647,511</b>	<b>11,254,016</b>	<b>10,038,980</b>	<b>59,297,735</b>

The corporate office which represents the land and building category and the corporate jet serve as security for long-term loans (note 9).

The carrying value of the corporate jet was written down to \$8,064,350 because of reduction of fair value of the corporate jet due to unfavourable economic conditions. This resulted in an impairment write-down of \$2,933,374 recognised in the income statement during the year ended 31 December 2009. An impairment loss of \$749,955 was incurred in 2008, which related to the write-down of a drilling rig.

The carrying value of the petroleum and natural gas interest in Oman was written down to its fair value, resulting in an impairment write-down of \$3,247,078 in 2008 due to a decline in oil and gas prices.

## 8. Other Financial Assets

	<b>31 December</b>	
	<b>2009</b>	<b>2008</b>
	<b>\$</b>	<b>\$</b>
Investment in warrants	1,154,225	107,501
Investment in unlisted securities	—	3,223,000
	<u>1,154,225</u>	<u>3,330,501</u>

The investment in Afren Plc warrants is classified as held for trading. The investment in unlisted securities represents common shares in a private company SeaDragon, which is classified as available-for-sale. The estimate of the fair value of the warrants is determined using the Black-Scholes model and relevant market inputs.

The Company owns 805,832 of the unlisted shares of SeaDragon, approximately 15% of the shares outstanding. At 31 December 2008, these shares were carried at a value of \$4 per share, which were valued based on the most recent private placement of SeaDragon on 26 October 2006.

At 30 June 2009, the carrying value of the investments in the shares of SeaDragon was written down to nil following the completion of a financial reorganisation by SeaDragon and the Company does not expect that the cost of the investment will be recoverable in the near future. This resulted in an impairment write-down of \$2,352,825 (2008— nil).

## 9. Borrowings

	31 December	
	2009	2008
	\$	\$
<b>Non-current borrowings</b>		
Convertible bonds—unsecured	115,276,942	141,319,489
Non-current portion of long-term debt	14,276,810	14,290,493
	<u>129,553,752</u>	<u>155,609,982</u>
<b>Long-term debt—secured</b>		
Current	615,892	595,418
Non-current	14,276,810	14,290,493
	<u>14,892,702</u>	<u>14,885,911</u>

### *2007 Convertible Bonds*

On 16 February 2007, the Company raised \$165,000,000 by completing the private placement of convertible bonds. Issue costs amounted to \$6,979,268 resulting in net proceeds of \$158,020,732. The Company issued 1,650, \$100,000 unsecured convertible bonds at par, which have a maturity of five years and one day and an annual coupon of 8% payable semi-annually on 17 August and 17 February of each year. Bondholders have the right to convert the bonds into Ordinary Shares at a price of \$4.70 per share at any time. The number of Ordinary Shares receivable on conversion of the bonds is fixed. The Company had the right to redeem, in whole or part, the bonds for cash at any time on or before 16 February 2008, at 150% of par value. This right was not exercised.

The fair value of the host liability component of the bonds (net of issue costs) was estimated at \$140,154,215 on 16 February 2007. The difference between the \$165,000,000 due on maturity and the initial liability component is accreted using the effective interest rate method and is recorded as finance costs. As the Company call option meant that conversion feature could be settled in cash in accordance with IAS 32 the conversion was treated as a derivative liability. The fair value of this derivative liability (estimated using the Black-Scholes option pricing model) was \$17,866,517 at 16 February 2007 and subsequent gains and losses have been recorded in finance income and costs up to the expiry of the Company call option on 17 February 2008. As a result of the expiry of this option, and hence the cash settlement feature, the Company has reassessed the classification of the conversion option and determined that it qualifies to be treated as equity under IAS 32, being an option to convert a fixed amount of cash for a fixed number of shares. Therefore, the fair value of the conversion option was reclassified to equity at that date.

Bondholders have a put option requiring the Company to redeem the bonds at par, plus accrued interest, in the event of a change of control of the Company or revocation or surrender of the Zapadno Chumpasskoye licence in Russia (the “contingent put option”). In the event of a change of control and redemption of the bonds or exercise of the conversion rights, a cash payment of up to \$19,700 on each \$100,000 bond will be made to a bondholder, the amount of which depends upon the date of redemption and market value of shares at the date of any change of control event. The contingent put option has been valued separately.

The fair value of the contingent put option has been estimated de minimis by the Company at 31 December 2009 (31 December 2008 – de minimis).

During 2009, bondholders with \$30.9 million of bonds gave notices of the exercise of 309 bonds. These bondholders received 6,574,456 Ordinary Shares (note 10). As a result of this

conversion, \$28,207,021 was transferred to share capital from convertible bonds and accrued liabilities and \$5,992,595 was transferred from the equity portion of convertible debt to share capital.

On 18 December 2009, the Company announced it had entered into a SPA for the sale of its 50% interests in Blocks 1 and 3A in Uganda (note 5). The Company also announced that it would consider returning a portion of the disposal proceeds to shareholders through a special dividend on completion of the proposed transaction. Under the terms and conditions of the bonds, the Company was restricted from making or declaring a dividend or making any other distributions to its shareholders which constitutes on a consolidated basis more than 30% of its earnings for the immediately preceding financial year.

In December 2009, the Company approached bondholders with the proposal to agree to remove this restriction and to make some other changes in the terms and condition of the bonds. In consideration the Company proposed to pay to those bondholders who vote on the proposal the sum of \$2,000.00 per \$100,000 of bonds held by such bondholders. The majority of bondholders voted in favour of this proposal at a meeting on 31 December 2009 and the restriction of making or declaring a dividend or making any other distributions to shareholders has been removed. On 15 January 2010, the Company paid \$2,378,000 to the bondholders who voted. In accordance with IAS 39, this amendment to the terms and conditions of the bonds does not constitute a redemption and therefore this amount was offset against the convertible bonds liability and will be recognised in the income statement over the period of the borrowings using the effective interest method.

#### ***Long-Term Debt***

In January 2005, a wholly owned subsidiary of the Company received a sterling denominated loan of £4.5 million to refinance the acquisition of a corporate office. Interest on the loan was fixed at 6.515% for the first five years and is then variable at a rate of Bank of Scotland base rate plus 1.4%. The loan, which is secured on the property, is scheduled to be repaid by 240 instalments of capital and interest at monthly intervals, subject to a residual debt at the end of the term of the loan of \$3.5 million (£1,860,000). The principal balance outstanding as at 31 December 2009 was \$6,573,584 (£4.1million) (31 December 2008 – \$6,155,882 (£4.2 million)).

In October 2007, a wholly owned subsidiary of the Company received a loan of \$9,450,000 to refinance the acquisition of the corporate jet. Interest on the loan is variable at a rate of LIBOR plus 1.6% The loan, which is secured on the corporate jet, is scheduled to be repaid by 19 consecutive quarterly instalments of principal. Each instalment equals to \$117,500 with the final instalment being \$7,217,500. The Corporation provided a corporate guarantee to the lender. The additional security of \$2,454,000 was paid to the bank on 19 January 2010 to maintain the loan to value ratio specified in the loan agreement.

#### ***Fair Values***

At 31 December 2009, the fair values of borrowings are approximately \$115.3 million (31 December 2008 – \$141.3 million) for the convertible bonds, \$89.2 million (31 December 2008 – \$25.8 million) for the equity/convertible element of the convertible bonds and \$14.9 million (31 December 2008 – \$14.9 million) for the long-term debt.

## 10. Share Capital

The Company was incorporated under the Companies (Jersey) Law 1991 (as amended) on 6 February 2008. The Company's authorised share capital is an unlimited number of Ordinary Shares without par value. At incorporation, there was one Ordinary Share issued at \$42. On 22 February 2008, a second Ordinary Share was issued at \$41.

As part of the Reorganisation described in 2008 Annual Report, the Corporation split its stock such that each existing Common Share of the Corporation was exchanged for either ten Ordinary Shares or ten Exchangeable Shares. The Corporation was a US dollar functional currency entity as is the Company and therefore the balance of Share Capital was carried forward at its historical amount into the financial statements of the Company. The rights of different classes of shares are the same and therefore economically equivalent. As such, Ordinary and Exchangeable Shares were treated as one class of shares for loss per share calculation.

Information about movements in share capital issued before the Reorganisation is presented in the table below on the after split basis, i.e. taking into account, the one for ten split.

### Ordinary Shares

	Year ended 31 December 2009		Year ended 31 December 2008	
	Number	Amount	Number	Amount
		\$		\$
At 1 January	251,858,374	215,509,055	254,877,480	217,672,243
Issue of shares	25,400,000	205,028,335	2	83
Exchange of Common Shares for Exchangeable Shares	—	—	(4,431,120)	(3,784,296)
Exchange of Exchangeable Shares for Ordinary Shares	225,000	192,150	1,182,012	1,009,470
Issued on exercise of share options	785,000	2,767,723	230,000	611,555
Issued on conversion of bonds	6,574,456	34,199,616	—	—
At 31 December	<u>284,842,830</u>	<u>457,696,879</u>	<u>251,858,374</u>	<u>215,509,055</u>

### *Special Voting Share*

	<b>Year ended 31 December 2009</b>		<b>Year ended 31 December 2008</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
At 1 January	1	\$ —	—	\$ —
Issued during the year	—	—	1	—
At 31 December	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>

### *Exchangeable Shares of Heritage Oil Corporation Each Carrying One Voting Right in the Company*

	<b>Year ended 31 December 2009</b>		<b>Year ended 31 December 2008</b>	
	<b>Number</b>	<b>Amount</b>	<b>Number</b>	<b>Amount</b>
At 1 January	3,249,108	\$ 2,774,826	—	\$ —
Exchange of Common Shares for Exchangeable Shares	—	—	4,431,120	3,784,296
Exchange of Exchangeable Shares for Ordinary Shares	(225,000)	(192,150)	(1,182,012)	(1,009,470)
At 31 December	<u>3,024,108</u>	<u>2,582,676</u>	<u>3,249,108</u>	<u>2,774,826</u>
Balance of Ordinary Shares of the Company and Exchangeable Shares of HOC—at 31 December	<u>287,866,938</u>	<u>460,279,555</u>	<u>255,107,482</u>	<u>218,283,881</u>

On 18 June 2009, the Company completed the placing of 25,400,000 new Ordinary Shares at a price of £5.20 per share for gross proceeds of \$216,848,944 (£132,080,000) to the Company. Share issue costs were \$11,820,609 (£7,157,379).

### **11. Loss Per Share**

The following table summarises the weighted average Ordinary and Exchangeable Shares used in calculating net earnings per share:

	<b>Year ended 31 December</b>	
	<b>2009</b>	<b>2008</b>
<b>Weighted average Ordinary and Exchangeable Shares</b>		
Basic	273,117,649	254,969,021
Diluted	289,643,434	256,257,622

The weighted average number of shares has been adjusted to reflect the effective one for 10 share split that took place as part of the corporate reorganisation described in note 10. The reconciling item between basic and diluted weighted average number of Ordinary Shares is the dilutive effect of share options and LTIP awards. A total of nil options (31 December 2008—22,232,010), nil shares relating to the LTIP (31 December 2008—4,926,429) and 27,042,553 of shares relating to the convertible bonds (31 December 2008—33,617,020) were excluded from the above calculation, as they were anti-dilutive. However, since the Company has made a loss in each year for the purposes of calculating diluted loss per share, all potential Ordinary Shares have been treated as anti-dilutive.

## 12. Related Party Transactions

During the year ended 31 December 2009, the Company incurred transportation costs of \$269,522 (31 December 2008—\$134,978) with respect to the services provided by a company indirectly owned by Mr. Anthony Buckingham, CEO and a Director of the Company.

## 13. Non-cash Investing and Financing Activities Supplementary Information

	<u>Year ended 31 December</u>	
	<u>2009</u>	<u>2008</u>
	\$	\$
Capitalised portion of share-based compensation	(2,062,661)	(4,639,169)
Non-cash property, plant and equipment additions relating to the capitalised portion of share-based compensation	2,062,661	4,639,169

## 14. Subsequent Events

On 18 December 2009, Heritage announced that the Company, and its subsidiary Heritage Oil & Gas Limited, had entered into a SPA, with Eni for the sale of its 50% interests in Blocks 1 and 3A in Uganda. On 17 January 2010, Tullow Uganda Limited exercised its right to pre-empt the sale of the Disposed Assets to Eni on the same terms and conditions as agreed in the SPA entered into between Heritage and Eni. The transaction was overwhelmingly approved by shareholders at the General meeting on 25 January 2010.

In April 2010, Heritage announced that it had received a letter from the Ugandan Government stating that it supports Heritage's sale and transfer of its Ugandan interests and that it will conclude its review of the transaction within eight weeks. Following this, Heritage expects to receive formal consent and to close the transaction shortly thereafter.

## 15. Going Concern

After making due enquiries, the Directors have made an informed judgement at the time of approving the financial statements, that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the financial statements.

## 16. Annual General Meeting

The AGM will be held at 22 Grenville Street, St Helier, Jersey, JE4 8PX, Channel Islands on 17 June 2010. Formal notice of the AGM including details of special business will be set out in the Notice of the AGM and will be available on the Company's website at [www.heritageoilplc.com](http://www.heritageoilplc.com).

### **FORWARD-LOOKING INFORMATION:**

Except for statements of historical fact, all statements in this news release – including, without limitation, statements regarding production estimates and future plans and objectives of Heritage – constitute forward-looking information that involve various risks and uncertainties. There can be no assurance that such statements will prove to be accurate; actual results and future events could differ materially from those anticipated in such statements. Factors that could cause actual results to differ materially from anticipated results include risks and uncertainties such as: risks relating to estimates of reserves and recoveries; production and operating cost assumptions; development risks and costs; the risk of commodity price fluctuations; political and regulatory risks; and other risks and uncertainties as disclosed under the heading "Risk Factors" in its Prospectus and elsewhere in Heritage documents filed from time-to-time with the London Stock Exchange and other regulatory authorities. The completion of the sale of the Ugandan interests is subject to certain conditions, some of which are beyond the control of the Company. Further, any forward-looking information is made only as of a certain date and the Company undertakes no obligation to update any forward-looking information or statements to reflect events or circumstances after the date on which such statement is made or reflect the occurrence of unanticipated events, except as may be required by applicable securities laws. New factors emerge from time to time, and it is not possible for management of the Company to predict all of these factors and to assess in advance the impact of each such factor on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking information.